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SPAINSIF RESPONSE – ESMA's Call for evidence On the integration of sustainability preferences in the suitability assessment and product governance arrangements

Q1: What actions did firms implement within their organization to take into account the new requirements related to sustainability preferences? Please elaborate especially on the following:

• What proportion of firms' employees (differentiating between client facing staff and the other staff) have received training on sustainability topics? What these trainings consisted of? Was any test or exam put in place?

Training continues to be necessary for advisors, especially in more advanced and complex topics, such as impact investing and its measurement. Recent studies recommend enhancing the knowledge and competence of financial advisors within the framework of the Retail Investment Strategy regarding sustainable finance. Given the dynamic nature of regulation, training should be periodic.

Instances exist where Financial Market Participants (FMPs) have conducted internal mystery shopping exercises, revealing the need for a secondary phase of training for their distribution network.

• Which conflicts of interest relating to the integration of clients' sustainability preferences did firms identify and which measures did firms take to ensure that these conflicts of interest do not damage the interest of clients?

Evidence gathered from various studies shows that advisors typically provide a neutral and unbiased explanation of sustainability preferences. According to third-party studies, most mystery shoppers received a product recommendation (at a rate exceeding 70%), giving the customer the option to customize their sustainability preferences when a suitable product is not available. However, only in a small percentage of cases did the advisor communicate that suitable products might be available elsewhere in the market.

Q2: Are there specific aspects of sustainable finance that retail investors struggle to understand? For example:
• Understanding of general aspects such as why it is important to consider sustainability risks and factors when investing?
• Understanding differences between sustainable products and products without sustainability features?
• Understanding that sustainability characteristics and (expected) return are two separate issues?
• Understanding the new legal definition of "sustainability preferences" and its components (e.g., categories a), b) and c), minimum proportion, principal adverse impact indicators (PAIs), etc)?

The evidence gathered from meetings with participants in financial markets and third-party studies shows that retail clients have difficulties in understanding the different 'categories or components' used to distinguish sustainability preferences. The legal definition of these categories does not seem to align well with the perceptions and motivations expressed by clients when detailing their sustainability preferences, which tend to be simpler and linked to categories or motivations related to alignment with their values, impact measurement, and also achieving a financial return.

Obtaining a return on investment is important for retail clients according to recent third-party studies. Most respondents tend to favor profitability in case trade-offs are necessary between their personal sustainability motivations. The predominant profile of a retail investor with sustainability preferences combines preferences that are compatible with impact and profitability. When the expected return is much lower than that of a conventional fund, the proportion of investors willing to invest in a green fund decreases significantly.

Furthermore, the complexity of legal terms and definitions may discourage investment decision-making and generate distrust among retail investors.

Q4: What is the main way firms currently provide information to retail clients about sustainable finance? For example:

- **Orally during the meetings with clients**
- **Through educational brochures or other (paper) documents**
- **Through dedicated website and apps**
- **A combination of the above**
- **Other**

The channels of information for retail investors are diverse, ranging from meetings between financial advisors and clients to documents and websites.

Q5: What are clients' experiences/reactions to the new questionnaires including questions on "sustainability preferences"? (e.g. do they require guidance to be able to answer to the questions? Do they show interest in the topic?)

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Q7: Which of the sustainable investment definitions do clients most often opt for? (EU Taxonomy alignment? Sustainable investment within the meaning of SFDR? Consideration of PAI? All of them?) Please provide any statistics, where available.

The evidence gathered from meetings with participants in financial markets and from third-party studies shows that retail clients have difficulty comprehending the different 'categories or components' used to distinguish sustainability preferences. The legal definition of these categories does not seem to be well aligned with the perceptions and motivations expressed by clients when detailing their sustainability preferences. These tend to be simpler and linked to categories or motivations related to alignment with their values, impact measurement, and achieving also a financial return.

Furthermore, a significant portion of Financial Market Participants (FMPs) currently employ a provisional and streamlined assessment method, which at times avoids to necessarily delve into the nuances of distinct categories. This approach remains in place while awaiting the official transposition of the regulation and additional guidance from ESMA.

Q8: How are firms collecting information from clients on their preferences concerning the minimum proportion? With regards to the use of standardised minimum proportions, which standardised minimum proportions are presented to clients?

According to the findings from the consulted evidence studies, in a percentage ranging from 50% to 70%, the minimum investment proportion according to sustainability preferences is not being evaluated.

Also, when evaluated, the level of delegation into the financial advisor on setting concrete percentages of minimum investment is rather high.
Furthermore, when evaluated, it is perceived that the degree of delegation to financial advisors in determining specific percentage thresholds for minimum investments is notably substantial.

Q9: What is approximately the average minimum proportion of sustainable investments requested by clients? Please provide details, where available.

According to the findings from the consulted evidence studies, in a percentage ranging from 50% to 70%, the minimum investment proportion according to sustainability preferences is not being evaluated. Additionally, market demand has been markedly impacted by the financial performance of sustainable products under the EU regulation in recent months.

Q10: Are firms currently able to satisfy the sustainability preferences expressed by clients (in particular in relation to the three categories (Taxonomy, SFDR, PAI))? If so, for which categories and/or types of financial instruments do firms find it most difficult to satisfy clients' preferences?

There is a significant gap between the percentage of clients with sustainability motivations and preferences, and the actual percentage of clients who have sustainable investment products in their portfolios.

Investors express a preference for investment products with impact, placing importance on profitability linked to impact. It is notable that the perception of "impact investing" from the retail client might differ from its perception from an institutional investor perspective.

Challenges arise in aligning product offerings with how clients articulate their preferences, as the SFDR framework, for instance, may not seamlessly integrate with the manner in which retail clients convey their sustainability preferences.

Q11: How often has the adaptation of clients' sustainability preferences been necessary during these first months of application of the rules (e.g. in terms of percentage considering new

clients and existing clients whose profiles have already been updated to include information on sustainability preferences)?

According to market experiences, clients tend to adapt their sustainability preferences in the event of not having available products that match their expressed preferences.

Q12: What kind of operational arrangements have firms put in place to allow clients to adapt their sustainability preferences?

Q13: How were clients informed about the possibility to adapt their preferences?

Generally, the evidence gathered from various studies shows that advisors typically provide a neutral and unbiased explanation of sustainability preferences. According to third-party studies, the majority of mystery shoppers received a product recommendation (at a rate exceeding 70%), giving the customer the option to customize their sustainability preferences when a suitable product is not available. However, only in a small percentage of cases did the advisor communicate that suitable products might be available elsewhere in the market.

Q27: How do firms apply sustainability-related concepts of Taxonomy Regulation and SFDR to MiFID II financial instruments that are outside the scope of SFDR (e.g., shares, bonds, certificates, etc.)? How do firms apply the "minimum proportion" concept to such instruments? In particular, how is the "minimum proportion" calculated?

According to the findings from the consulted evidence studies, in a percentage ranging from 50% to 70%, the minimum investment proportion according to sustainability preferences is not being evaluated.

Q34: Have firms noticed increased demand by clients of financial instruments with sustainability features? Please provide any relevant available statistics on this topic (e.g. percentage of clients asking information about these products; trends over time). Furthermore, please explain if factors such as age, gender, level of education or level of income/wealth play a role in the demand for financial instruments with sustainability Features.

The increase in customers who have made decisions to invest in sustainable products is still limited. There is a significant gap between the percentage of customers with sustainability motivations and preferences, and the actual percentage of customers who have sustainable investment products in their portfolios. Investors show a preference for impact investment products, attaching importance to profitability combined with impact.

Q35: Which percentage of products in firms' offering have sustainability features? Please provide breakdowns and details, where available. Are retail clients satisfied with the availability of products with sustainability features (number, type, characteristics)?

Q36: Are firms facing specific issues related to data availability/data quality with respect to financial instruments with sustainability features? If yes, how are firms dealing with these issues?

There are considerations from sustainable finance ecosystem referring to ETT template as a tool with potential to help solving the challenges related with data availability but yet lacking from counting on the necessary information in present.